FNAC DARTY

Fnac Darty Q1 2022 Results

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London – 020 7870 7100
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Jean-Brieuc Le Tinier: Hello. Good afternoon, everyone. Thank you for taking part in our Q1 revenue call. As usual, our press release as well as our presentation, which we're going to comment on during this call, are already available on our website. The Investor Relations team is at my side with Stéphanie and Marina.

First of all, I'd like to give an overview of the Group's performance in the first three months of the year. After that, we'll be happy to field any questions you may have. We will begin the presentation by talking to you about the main achievements in Q1.

Firstly, Fnac Darty held up very well in Q1 in terms of sales, only slightly down by minus 2.5% like-for-like in spite of a very high comparison basis because we booked growth in sales of plus 21.7% in Q1 2021. Compared to 2019 pro forma, the Group is still seeing strong growth in sales, up 7.8%. According to most recent figures by the Bank of France two days ago, the Group has continued to outperform the French market in the first quarter of 2022.

Secondly, this performance is a result of strong growth in in-store sales in the context when all stores were opened during the quarter and online sales continue to be buoyant, making a 23% of Group sales. I remind you, in Q1 level of online sales is still lower than annual percentage due to the seasonal nature of our business.

Furthermore, Click & Collect, which is key to our omnichannel business model, still makes up over one online sale out of two, which is 47% of online sales in Q1 2022, up 6 points over a one-year period.

Thirdly, the Group managed to achieve its quarterly gross margin growing more than 40 basis points compared to Q1 2021, driven really by the positive contribution from services and continuation of the rollout of Darty Max, as well as the resumption in ticketing business. There is no significant impact from the franchise on the gross margin this quarter because business level has come back to a more usual level.

Lastly, we signed two major strategic partnerships this quarter in the area of digital and data, firstly with Google, and secondly regarding repairs with Apple. These are two major pillars in our Everyday strategic plan, which I'll come back to in a few moments.

Before delving into detail regarding our performance, I'd like to recall to you that we paid a one-time cost of living bonus to our employees who are the hardest hit by the current inflationary context. This means over 19,000 employees, which is approximately 80% of Group employees. However the situation in France, this bonus was €400 for an employee who receives gross annual salary below €35,000. All in all, impact on our current operating income this year will be above €6 million.

Furthermore, the ratings agencies, Standard & Poor's and Scope recently upgraded by one notch our rating. It's BB+ and BBB, respectively, outlook stable. We're highly satisfied with these upgrades, which underscore the sound financial management of Fnac Darty in the context of this crisis.

Now to go into detail, talking to you about our sales performance in this Group region to region. This is slide three. The France-Switzerland region showing good resistance, like-for-like minus 2.8%. This is thanks to good in sales stores. Online sales are normalising, most stores opened in the first quarter. In this geography, the Group continued opening new stores in Q1 nine new points of sale, including seven franchises. Furthermore, in Switzerland, we're rolling out our partnership with Manor, continuing this in accordance with our plan. Additional opening of seven shop-in-shops Fnac within Manor's established in German-speaking Switzerland.

As of end of March, we have 20 shop-in-shops Fnac in Manor, still targeting 27 shop-in-shops by the summertime. In other geographies, sales are up in Iberian Peninsula, up 7.4%, demonstrating continued gradual recovery in the geography, which have been harder hit by the health crisis.

Lastly, the area Belgium-Luxembourg, down minus 8.6% like-for-like, impacted by a high basis for comparison, as well as flat consumption levels and particularly high inflation.

Let's talk about performance by category. Household appliances down this quarter, mainly due to a drop in volumes in the market, as foreseen by most recent Bank of France figures, and also a strong comparison base. Large appliances are up. Technical products, good momentum in telephones, audio, photo, more than offsetting the drop in some categories that have been required previously for remote working and learning from home in conjunction with the health crisis.

Publishing products growing strongly due to renewed in-store traffic and very good online book sales, driven by the culture pass in France, which is extended to middle schoolers, as well as people's interest in comic books and mangas. Audio and video and also vinyl records performing well. Gaming slightly down due to stock shortages of the most recent console generations.

Lastly, services continue to grow in all regions inter alia with the continued rollout of Darty Max. Good momentum in credit and also an encouraging recovery in ticketing, thanks to good programming and an easing of health constraints during the quarter.

Now on to slide four to talk about our two key partnerships which we signed during the quarter. Firstly, the Group signed a partnership with Google. It's a partnership on cloud and data to improve relevance of our search tools and always provide extra services to our clients. Fnac Darty is the first retailer in France to roll out the Google Cloud Retail search on its fnac.com and darty.com sites to improve the performance of our search engines.

We're going to be establishing new performance standards in terms of customer experience online and on mobile devices to reach our objective of 30% online sales by 2025. Thanks to the partnership, we'll also be able, at Fnac Darty, to improve the coordination of our activities, as well as promotions and better prioritise our after-sales service interventions, thanks to inclusion of data processing and analytical tools, machine learning and artificial intelligence.

At the same time, we signed a partnership, which is highly innovative, with Apple to strengthen our Group's position, which has been helpful several years, in the area of repair and extension of product lifespan. Through this partnership, we're talking about 142 WeFix points of service, which we included in the Apple approved network. We're also going to have the training sessions for 500 employees to repair Apple equipment.

Lastly, AppleCare Services will be in addition to our current online mobile insurance products. This strengthens our long-term relationship between Fnac Darty and Apple, showing our commitment to product sustainability and repair. 2.1 million in repairs in 2021 already. The Group has a vision of reaching 2.5 million in repair products by 2025.

To wrap up, moving on to slide five. Fnac Darty has continued to outperform markets and has managed to ensure that its quarterly gross margin rates has been – have been kept at regular levels and has also been able to stave off ramped inflation and a reclining household confidence index.

While we pay close attention what is happening between Russia and Ukraine in terms of the impact on visibility for markets over the coming months, I would like to remind everyone that the Group has no sites directly in the conflict area and has no direct impact on its supply chains.

For the rest of the year, Fnac Darty remains confident in its ability to continue to outperform the market, as has already been shown in this first quarter. In particular, thanks to its large product line of products and services because it can give clients exactly what they need and also because of the high premium-type categories that will be able to shore up this position.

Moreover, the Group is focusing its efforts to optimise the impact on its gross margin. That is the key priority. It will rely on being able to offset price increases, in particular, through focusing on benefits that it will gain from its premium lines and renewing product lines.

We will continue cost-management measures, which will help us ensure strong performance to be able to stave off inflation. At the same time, we'll continue to implement our efforts so that we can achieve cumulative free cash flow from operations of approximately €500 million over 2021 to 2023 and free cash flow from operations of at least €240 million from 200 – 2025.

A few quick points on slide six. Just to remind you all that the General Assembly will be held on 18th May in Paris. And we will, as you will see in the press release, said that there is an increase of 13% of share take from Vesa Equity Investment this month, which will make it our second largest shareholder. That said, Vesa is not going to call for a nomination of a number of members – its members to the Board. And during the General Assembly, we will make this adjustment to renew three independent Board members and the nomination of a new independent administrator, Stefanie Meyer, former VP of Projects for the Group at Ceconomy. This will increase the expected range of our Board.

I'd like to thank you all. And now I'll open up the floor to questions.

Questions and Answers

Operator: If you would like to ask questions or ask any comments, please press star one. If you would like to cancel a question, press star two. We have questions. The first question comes from Clément Genelot from Bryan, Garnier & Co. Sir, the floor is yours.

Clément Genelot (Bryan, Garnier & Co): Yes, I have three questions. First, about inflation. Are you going to see a drop in ranges? Are you going to focus more on proprietary brands, for example with entry level prices?

My second question is on the margin outlook. Are we going to see gross margins improve again at the same pace as we've already been seeing over Q1, given ticketing and other services are going to pick up again and also given that is an uptick from Nature & Découvertes? Now everything that you've been able to put in place for 2022, is it going to offset OpEx inflation? Or is it going to impact a bit for this year? Or are we going to see recovery that is not going to be as good for the gross margin?

The third question, the partnership for ticketing for the 2024 Olympic Games. Are we going to see double-digit million euros investment? And for France, BA, is their contribution also going to apply? Or – would just like a bit more colour on that. Thanks.

Jean-Brieuc Le Tinier: For the first question on inflation and the feedback we're getting from customers, where we aren't really seeing an impact on our product ranges. Maybe it's a little too soon. But for the time being, we haven't seen a change. Really, the changes we're seeing are more on long-term investment products. So here, high products such as white goods with a high – come at a high price. So they're long-term investments for households. And for these sorts of products, people are looking for long-term investment.

And I mean, the question we ask, we aren't really seeing an impact for the time being. That's for the first question.

Second question on gross margin. We have no visibility for markets, as we mentioned in our – in the previous presentation. But what we do know is that our gross margin is nevertheless one of the levers that we could use to have an impact. So we're going to focus on ticketing. We're going to Nature & Découvertes. And obviously, it implies that we need to have a capacity to offset the impact that our customers are going to feel. And this is going to be the main focus of our efforts throughout 2022.

Moving on to the next question. As you know, historically speaking, we've always been able to remain a constant scope zero impact. So this year, we see inflation is on the rise. According to our current figures, we should be able to maintain that cost management. But remember, costs account for about 23% of our top line. So we also need to bear that in mind when taking into account the margins and the 25% elsewhere that we're looking at it.

Second, we aren't giving guidance – yearly guidance for the time being. We're just trying to give you a bit more understanding. So really, we don't give gross margin guidance in terms of – in euros, nor for EBIT. But that said, we do have levers and actionable schemes that we can put in place to ensure that we maintain the right capacity that we can keep inflation in check so that, that doesn't negatively impact also our customers.

Next question, just on the partnership. We're quite happy with the current partnership. We're quite happy that we won the tender for Paris 2024 ticketing services. As was said in the press release, that will generate mid-term revenue, but it's really quite a good omen for the coming years.

Clément Genelot: And just quickly, the margins that you're expecting to see, is it going to bring additional business? Are you going – is it going to be similar to current ticketing activities? Or is it a bit different? Because it's quite a major partnership. What margins are you looking for there?

Jean-Brieuc Le Tinier: Well, obviously, we're still negotiating commissions on that, and it's highly confidential for the time being. So we aren't going to be able to give too much detail there.

Clément Genelot: Okay. Thank you very much.

Operator: Next question, Marie-Line Fort from Société Générale. Marie-Line, the floor is yours.

Marie-Line Fort (Société Générale): Good evening. I would just like to talk about the drop in sales of white goods for the first quarter. Is this a baseline effect or is this because the market is oversaturated, given that past 18 months has been going through quite a level of upheaval. Because obviously, these items are the sort of items that are fantastic for gross margins. So that's the first question.

Second question on ticketing. What impact are you seeing, given the fact that there was the Omicron variant that had an impact on venues being shut down? So just like a bit of colour on that. And then a quick question about advertising because shops were open somewhat in the first quarter. So how are clients perceiving a lot of the advertising that you're doing on current services?

And the other question I would like to ask about is about the strategic plan. Some people saying that it's about high time to see one. Could you tell us a bit more about that?

Jean-Brieuc Le Tinier: Okay. For the first point, yes, the white goods market over the quarter was somewhat down, but that really is a baseline effect. When we look at the past two years, it has been really doing quite well. I mean it's always challenging for us to look at performance over one year or two years. Really, when we look at the proper year 2019, the year that we can probably compare ourselves against, we're doing quite well.

Ticketing. Ticketing was mainly impacted just for January. February, March, however, we saw quite strong business in terms of ticketing.

Darty Max. So Darty Max, that's obviously what we're talking about asking about the different advertising about that. And really, it is – we're perfectly in line with what we forecast as part of that.

And just quickly about Nature & Découvertes. So 2019 is when it all started. However, those shops were hard hit because of the COVID crisis. Both 2020 and last year, a lot of our shops were closed down. Now 2022 is more or less a normal year in terms of shop openings, but still a little early to say what it's like so far, but we will have more insight when we get to sit down with the General Manager of Nature & Découvertes.

But we certainly hope to be able to open up new shops in new zones such as Portugal or the overseas territories. And we are continuing to roll out that new shop plan that we have.

Operator: Next question is from Geoffroy Michalet from ODDO BHF. Geoffroy, the floor is yours.

Geoffroy Michalet (ODDO BHF): Yes, I just have two questions. Could you just quickly tell us a bit about stock shortages for the main categories?

And second question about stock and inflation. How do you see the impact for the coming year from inflation on stock levels? And maybe some of this is all going to have a negative impact on your WCR.

Jean-Brieuc Le Tinier: Okay. Just quickly on stock shortages. Well, we aren't out of stock for a lot of items. Well, yes, there are challenges in supply lines. A lot of these take back to pre-COVID, so in 2019. The Group's relationship with our suppliers is to be agile and to be able to absorb certain risks. That's why we may have difficulty in supply lines, but we do our best to avoid having – or running out of stock in our shops. We're currently increasing stock levels.

Now the reason we're doing that isn't because of inflation. We're not trying to make a bet on the future prices because you don't – that always – that doesn't always pay off, but simply because of COVID, the number of factories have had to close down, Shanghai and other areas, factories are closing down.

So in order to plan ahead for future factory closures, we are making – we're increasing stock levels because of that because we may see greater shortages in the supply lines as to what we've seen over the past few years. But that's why we're just increasing our reserves. I hope that answers your question.

Geoffroy Michalet: That's very clear. Thank you very much.

Operator: No Further questions in our queue. If you'd like to ask a question, please press star one. Thank you. We have a question now from Ms Fabienne Caron from Kepler Cheuvreux. You have the floor. Go ahead.

Fabienne Caron (Kepler Cheuvreux): Yes, from Kepler Cheuvreux. Two brief questions. Could you talk to us about average inflation you're seeing for white goods? Next, why is it in Belgium the consumption pattern in the context is so difficult? From memory, yes, we noted inflation, but there's still automatic wage inflation in Belgium as well. It's hard to understand why consumption is such an issue in Belgium. Could you help us out? Thank you.

Jean-Brieuc Le Tinier: Yes, of course. On inflation, white goods, particularly, we signed contracts end of February as per the law. This part due to inflation part through negotiation, but I'm not going to delve into detail on industrial secrets. We have our sales agreements. We may talk about this later on in the year.

Fabienne Caron: Just a follow-up. Are we talking about mid-single digit or mid-double digit? Could you give that type of comment?

Jean-Brieuc Le Tinier: No, I cannot. No, I can't even give that to you, Fabienne. It was a good try, but I can't give you that. I can't disclose that.

Fabienne Caron: What about Belgium?

Jean-Brieuc Le Tinier: Yes, Belgium. It compares – the baseline effect is quite high. Remember, in Belgium-Luxembourg, they had other impacts that were stronger than in other geographies. So that was one of the other impacts. But no worry because we're seeing growth versus previous period. The comparison baseline is particularly high in that geography.

Fabienne Caron: Thank you.

Operator: Next question is Ms Marie-Line Fort again from Société Générale. Marie-Line, go ahead. You have the floor.

Marie-Line Fort: A question asked about Belgium. I've got one on mobility products. We've seen some of them sold very well. Are you still in this product diversification? Do you have anything in the pipeline in this area?

Jean-Brieuc Le Tinier: Mobility, this is something we branched out into several years ago, doing well. We could be different, we realised. We started with scooters, went on to bikes, also electric scooters, continuing to develop – selling the products and also product accessories, which are necessary for sales and margin.

Well, for showcasing these products, we've got XXL corners for mobility, very large-sized mobility sections, to boost this product category.

Marie-Line Fort: Is gross margin improved?

Jean-Brieuc Le Tinier: Gross margin is entirely satisfactory for these products, plus you've got the accessories and the services. We've got the whole services ecosystem, thanks to our partnership. So we've got the whole urban mobility ecosystem covered that we're developing.

Marie-Line Fort: Thank you very much for that.

Operator: Next question Mr Clément Genelot from Bryan, Garnier & Co. Go ahead.

Clément Genelot: Two points. Firstly, on your partnership [inaudible] deliveries platform. Deliveries come to the Fnac stores apparently to pick up the products and deliver them to the customers. Is this a partnership or commercial relationship that's already beneficial? Do you think it should be extended to other platforms and conceivably other countries as well? Next point is that, is this just a financial investor for the time being, or are they an investor that's got a closer relationship with you and with whom you have regular discussions?

Jean-Brieuc Le Tinier: On your first question, Clément, about the Uber Eats partnership, we work with these platforms in big cities. It's just for a short list of products inter alia so we can have an additional offering so customers can get products they're interested in outside store hours. For the time being, it's a test. Like any test, it will take some time to see if it pays off for both partners. And then, of course, we'll go further if it's a positive.

On Vesa, we've met with them and their team, of course, like we meet with all of our investors, so that should be – I think, what they like about Fnac Darty is our business model and our corporate project, our strategy plan, and our teams, plus they wanted [inaudible] that there was share price – the share was being traded at a discount.

Clément Genelot: Thank you.

Operator: We have no further questions. I'd like to give the floor back to your host.

Jean-Brieuc Le Tinier: Yes. Well, thank you very much then for listening. Have a great evening. Meet with you again soon. Bye-bye.

Operator: Thank you for joining today's call. You can hang up now. We are going to, as usual, stay on the line for further instructions.

[END OF TRANSCRIPT]